Before the
FEDERAL COMMUNICATIONS COMMISSION
Washington, DC 20554

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In the Matter of:	)	
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The United States Telephone Association's Petition for Rulemaking to Amend Part 32 of the Commission's Rules to Eliminate Detailed Property Records for Certain Support Assets	))))))	RM-8640

GTE's REPLY COMMENTS

GTE Service Corporation and its affiliated domestic telephone operating companies

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GTE's REPLY COMMENTS

GTE Service Corporation and its affiliated domestic telephone operating companies ("GTE") hereby reply to comments filed on the Commission's Public Notice DA 95-1027, which sought comment on the Petition for Rulemaking (the "Petition") of the United States Telephone Association ("USTA") asking the Commission to initiate a proceeding to amend its Part 32 Rules to eliminate detailed property record requirements for the support assets in: Account 2115, Garage Work Equipment; Account 2116, Other Work Equipment; Account 2122, Furniture; Account 2123, Office Equipment; and the personal computers and peripheral equipment in Account 2124, General Purpose Computers ("Support Assets").

In place of the current continuing property records ("CPR") system, USTA proposes that carriers be permitted to use a Vintage Amortization Level ("VAL") property record system. GTE urges the Commission to grant the Petition of USTA and to permit carriers to use a Vintage Amortization Level ("VAL") property record system.

DISCUSSION

1. Implementation of VAL -- which concerns Support Assets only -- can be revenue neutral.

VAL can be implemented on a revenue neutral basis. Indeed, none of the parties filing comments raised an issue of VAL's revenue impact.

Further, reflected in NARUC's submission (at 5) is the misconception that granting the Petition would put in issue all CPRs. GTE maintains this is not the case. It is far easier to justify higher-value CPRs that are easier and more economical to track. In such cases, the dollar value at issue may justify using additional controls (CPR tags) to track the asset "from cradle to grave."

2. VAL will reduce administrative expenses associated with establishing and maintaining CPRs for support assets.

The record establishes that VAL can significantly reduce the administrative costs associated with keeping CPRs for Support Assets. Several parties have estimated cost savings in the millions of dollars they would realize as a result of adopting VAL.[1] It should be stressed that these are annual and on-going savings. In the course of a few years the industrywide VAL savings would certainly amount to tens of millions of dollars.

Further, notwithstanding denials by MCI (at 2), there is strong evidence in the record showing that CPRs for support assets require a disproportionate amount of resources. Thus, US WEST states (at 3):

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[1] Bell Atlantic at 2 says $4 million; BellSouth at 5 says $6 million; Pacific Bell at 3 says $.9 million.

> The support assets covered by USTA's proposal make up approximately five percent of U S WEST's total investment. U S WEST expends approximately one-fourth of its fixed asset accounting administrative costs to establish and maintain basic property records on these support assets.[2]

GTE states (at 3) that it incurs fourteen percent of its record-keeping costs to support a similar five percent of its fixed asset base. While the Pennsylvania Public Utilities Commission ("PaPUC") (at 2-3) was prevented by lack of time from confirming this disproportionate use of resources, PaPUC "believe(s) that it is likely that existing accounting rules do require a considerable amount of time to monitor these assets both physically and through the accounting system." Thus, PaPUC (at 2) supports USTA's proposal as consistent with its own initiative to streamline reporting requirements.

The benefits of VAL in terms of increased carrier efficiency are indicated by support for the Petition by the Public Service Commission of Wisconsin ("PSCW") (at 1): "An amortization method for general plant equipment has potential cost saving benefits which could be passed on to the ratepayers." Also (*id.*), "The dollar level of plant in the general accounts is minimal in comparison to the total utility plant investment."

The savings associated with the adoption of VAL will also extend to regulators, both state and federal. Again, as the PSCW states (at 2), the potential cost saving "frees time of present utility and regulatory employees for more material tasks." As BellSouth (at 6) states:

> [VAL] will eliminate the requirement for detailed depreciation studies for these support assets. This will enable carriers and the Commission to reduce their cost immediately or to eliminate the cost of future resource requirements through the redeployment of resources that would no longer be required to conduct depreciation studies for these accounts....

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2 *Footnote omitted.*

In summary: It is shown by the record that VAL will reduce administrative expenses associated with establishing and maintaining CPRs for support assets.

3. Internal controls and safeguards will not be adversely affected by the adoption of VAL.

Accounting records by themselves will not safeguard assets, nor will the lack of individual accounting records frustrate internal controls and safeguards that are properly designed and functioning. As Bell Atlantic observes (at 3):

> The primary control objectives served by current Commission requirements relate to proper reporting and systematic allocation of these costs; but these objectives are fully met under the USTA VAL proposal. Internal controls over the initial purchase of assets are not changed under the VAL approach....

Bell Atlantic goes on to point out (at 4) that elimination of CPR requirements "for a limited group of low cost/high volume assets will not reduce control over these assets, but will reduce the burden and expense associated with unnecessary inventory and record keeping requirements."

In summary: Adopting VAL will not adversely affect internal controls and safeguards.

4. State commissions that permit VAL record-keeping recommend USTA's proposal.

NARUC, NYSDPS and Public Utility Commission of Ohio ("PUCO") voice concern that VAL would prevent them from carrying out their responsibilities. GTE, sensitive to the views of these public bodies, suggests that it is shown *supra*: (i) that there will be important improvements in efficiency by eliminating costly requirements; and (ii) that internal controls and safeguards will not be adversely affected.

Furthermore, the experience of regulatory agencies reinforces these conclusions. PaPUC points out (at 3):

> [A]cceptance of the USTA proposal is predicated upon the assumption that support asset costs, relative to total rate base, do not justify the significant administrative costs involved in retaining existing safeguards.

PaPUC (at 4) also says the "stated purpose [of the Petition] to reduce the significant amount of administrative work and attendant cost of maintaining detailed accounting records for the support assets is reasonable and dovetails with federal and State initiatives to reduce unnecessary and/or burdensome reporting requirements."

In addition to these PaPUC recommendations, grounded in experience, GTE cites PSCW, a state with a history of benefitting from VAL accounting for electric and gas utilities, which points out the following:

(1) "The dollar level in the general accounts is minimal in comparison to the total utility plant investment" (at 1).

(2) "Staff audit procedures could be developed to test utility procedures regarding the transfer of general plant assets" (at 2).

(3) "[VAL] frees time of present utility and regulatory employees for more material tasks" (at 2).

In GTE's view, company management and regulators must consider how ever-decreasing resources can be allocated to those functions that materially impact operations and results. VAL is an instance where this has be done with great success. States that have experience such as PaPUC and PSCW have given other agencies the benefit of their experience by filing herein and would doubtless respond favorably to inquiries by the other states. If VAL is not adopted on a nationwide basis, this would destroy important savings.

In summary: The experience of state commissions that allow VAL shows the net public benefits associated therewith.

5. MCI's circular argument for restrictions on exchange carriers are without merit.

MCI (at 3) cites various audits -- and erroneously includes GTE in these audits[3] -- in support of an argument that Local Exchange Carriers ("LECs" or "exchange carriers") should not be permitted to "keep less detailed records." This is an essentially circular line of reasoning that argues for ever-more-detailed accounting and record-keeping requirements imposed asymmetrically on exchange carriers, while MCI and other direct and indirect LEC competitors are free from such requirements. The upshot is a company like MCI has no strict rules to comply with, consequently rarely has to deal with a compliance problem of consequence, while exchange carriers facing an infinity of strict rules to comply with must constantly grapple with compliance problems. This asymmetric outcome completes MCI's circular reasoning and represents the ideal solution for MCI because it makes MCI's competitors less competitive by placing ever-greater burdens on them.

MCI offers no evidence that the issues involved in the cited audits would be in any way affected by the adoption of VAL. A party such as MCI should not be permitted to deny important cost reductions to the LECs without regard to the larger public interest.

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[3] MCI has written a courteous letter dated today to the Secretary of the Commission acknowledging that GTE was inadvertently and erroneously listed by MCI as one of the carriers audited by the Commission.

In summary: The Commission should give no weight to MCI's unsubstantiated and self-serving comments that heavy regulatory burdens should remain on exchange carriers.

6. GTE does not oppose combining the Commission's Notice on raising the expense limit for certain support assets with the instant proceeding, but does not believer raising the expense limit is an alternative to VAL.

GTE believes the instant proceeding should be carefully considered along with CC Docket No. 95-60 with the aim and purpose of adopting accounting rules that are more in keeping with a competitive environment. While agreeing with the New York State Department of Public Service ("NYSDPS") that the two proceedings are related, GTE does not support the conclusion that simply raising the expense limit would be a sufficiently address to the issues[4]. Raising the expense limit would reduce administrative costs associated with low-cost/high-volume support assets, but it is not the best way to achieve simplification. In a competitive market for local exchange services, the LECs need genuine relief from obsolete regulatory baggage. This means exchange carriers must be allowed the same options and flexibility as their competitors.

Raising the expense limit will provide relief for only a limited time. Without a more meaningful move to match the accounting requirements appropriate for a competitive marketplace, the LECs will soon find themselves petitioning the

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[4] GTE is interested in exploring further the concept proposed by the PaPUC at 3 that would permit expensing low-cost assets, using VAL for assets falling within certain benchmarks, and continuing CPRs for the highest cost assets. While this proposal does not offer the full advantages of adopting VAL for the entire account balances, depending on the benchmarks selected, it might offer more relief than just raising the expense limit.

Commission for additional needed relief. GTE suggests regulation and the industry must move away from a costly and outdated regulatory model ill-suited to a competitive world.

In summary: GTE does not regard raising the expense limit for certain support assets as an alternative to VAL.

Respectfully submitted,

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August 1, 1995

Their Attorneys

Certificate of Service

I, Ann D. Berkowitz, hereby certify that copies of the foregoing "GTE's Reply Comments" have been mailed by first class United States mail, postage prepaid, on the 1st day of August, 1995 to all parties of record.

Ann D. Berkowitz